2011 technical outlook

NOMURA

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Investment Strategy

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Expecting 2011 to be a year of higher share prices, a weaker yen, and lower bond prices

Technical charts suggest that 2011 will be a year of higher share prices, a weaker yen, and lower bond prices. We look for USD/JPY to rise to around 95 as the dollar strengthens and expect EUR/JPY to recover to over 120. Although we forecast a correction in US equities in the near term, we see a certain degree of upside from summer through early fall. We expect to see Japanese equities catch up with global equities in 2011 as the external environment improves, with the Nikkei Average heading for 12,661 and the TOPIX for 1,128 toward end-2011. We also look for a switch to a downtrend in Japanese and US bond markets (ie, rising yields) to lead to a recovery for Japanese equities.

- ***Japanese equities—Nikkei Average could head for 12,661 at end-2011:*** Wave formation suggests to us that Japanese equities are in the initial stages of a full-fledged upswing. Although we look for a correction in the near term, Japanese equities are likely to gradually push higher toward end-2011. If all goes well, we think Japanese equities will regain their April 2010 highs (11,408 for the Nikkei Average, 1,001 for the TOPIX) in spring 2011, with the Nikkei Average heading for 12,661 (a 50% retracement of the decline from the February 2007 high to the March 2009 low) and the TOPIX 1,128 (a 38.2% retracement) by end-2011. In terms of stock selection, catch-up gains by long-term underperformers are likely to be the driving force that lifts the major indices. Financial stocks are at the top of our list of likely upside leaders.
- ***US equities—likely to rise from summer through early fall after near-term correction:*** Wave formation suggests a certain degree of upside for US equities in 2011. That said, we expect a correction after the near-term high is formed, with a corrective holding pattern running through Feb–Mar 2011. We think an uptrend will resume after this correction and expect to see healthy share prices from summer through early fall. We think the DJIA and the S&P 500 are likely to head toward 12,374 and 1,361 respectively, equivalent to a 76.4% retracement of the decline from October 2007 highs to March 2009 lows, while the NASDAQ Composite is likely to target its October 2007 high of 2,861.
- ***Bond market—Japanese and US bond markets likely to be on downtrend (yields rising):*** The Japanese and US bond markets are likely to have switched to a downtrend (ie, yields are rising). We think JGB futures prices (benchmark contract) will lose momentum toward mid-2011, when the end of a medium-term (four-year) trough-to-trough cycle is due. In the near term, we expect the decline to pause around ¥138, but once the downtrend resumes we look for it to continue to around the ¥130 level (yield of around 2.0% on new-issue 10-year JGBs). We also think US long-term interest rates have started on an uptrend and look for them to reach 4% over time.
- ***Forex market—shift to weaker yen trend:*** USD/JPY is probably now in a rebound phase, having bottomed at 80.21 in November. We expect the weak yen/strong dollar trend to continue until mid to late 2011, with USD/JPY rising to around 95 if all goes smoothly. The yen also appears to now be weakening against the euro and we look for EUR/JPY to head for around 120 in spring 2011. Having reached the end of a medium-term (four-year) trough-to-trough cycle in June 2010, EUR/USD is likely to rise until around spring 2011, but we think the rate will then enter a holding pattern.
- ***Commodity market—expecting correction after forming high:*** WTI crude oil futures (front month) have reached the key juncture of $90/bbl. If the price turns down soon, we think it could correct to below $70/bbl. Meanwhile, if it continues rising in the near future, it could reach $103/bbl or so around April 2011. COMEX gold futures (front month) have started rising again, with $1,484/troy oz as the next key target, but we think a rise to ultimately reach around $1,591/troy oz is possible. Meanwhile, after the high is reached, we look for a correction in momentum to bring the price to around $1,000–1,050 from summer through early fall 2011.

17 December 2010

Japanese full report & English summary:	15 Dec
Report no.	S10-080

Nikkei Average (15 December)

10,309.78

TOPIX (15 December)

902.42

Please read the important disclosures and analyst certifications on pp. 21–24. gl

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1. Japanese equities: Nikkei Average could head for 12,661 at end-2011

Expecting higher share prices, weaker yen, and lower bond prices

The charts suggest that 2011 will be a year of rising share prices, a weaker yen, and lower bond prices. We expect to see Japanese equities catch up with global equities after the strong yen trend reverses.

Consolidation phase seen since summer has ended and attempt to regain April 2010 high appears to have started

We expect Japanese equities to catch up with global equities in 2011 as the external environment improves. In November 2011, after the Nikkei Average formed an inverse head-and-shoulders pattern, with the 6 July low of 9,091 being the left shoulder, the 1 September low of 8,796 the head, and the 2 November low of 9,123 the right shoulder, the TOPIX formed a double bottom between the 1 September low of 800 and the 2 November low of 799, reconfirming that the period of consolidation since the summer has now ended. We have seen a rise in the number of positive medium-term chart signals, with the 13-week moving averages for the Nikkei Average and the TOPIX rising above the 26-week moving averages to form golden crosses. We think Japanese equities could head back toward their April 2010 highs (11,408 for the Nikkei Average and 1,001 for the TOPIX) through spring 2011 (Exhibits 1-2 and 1-3).

We expect brief correction in near term

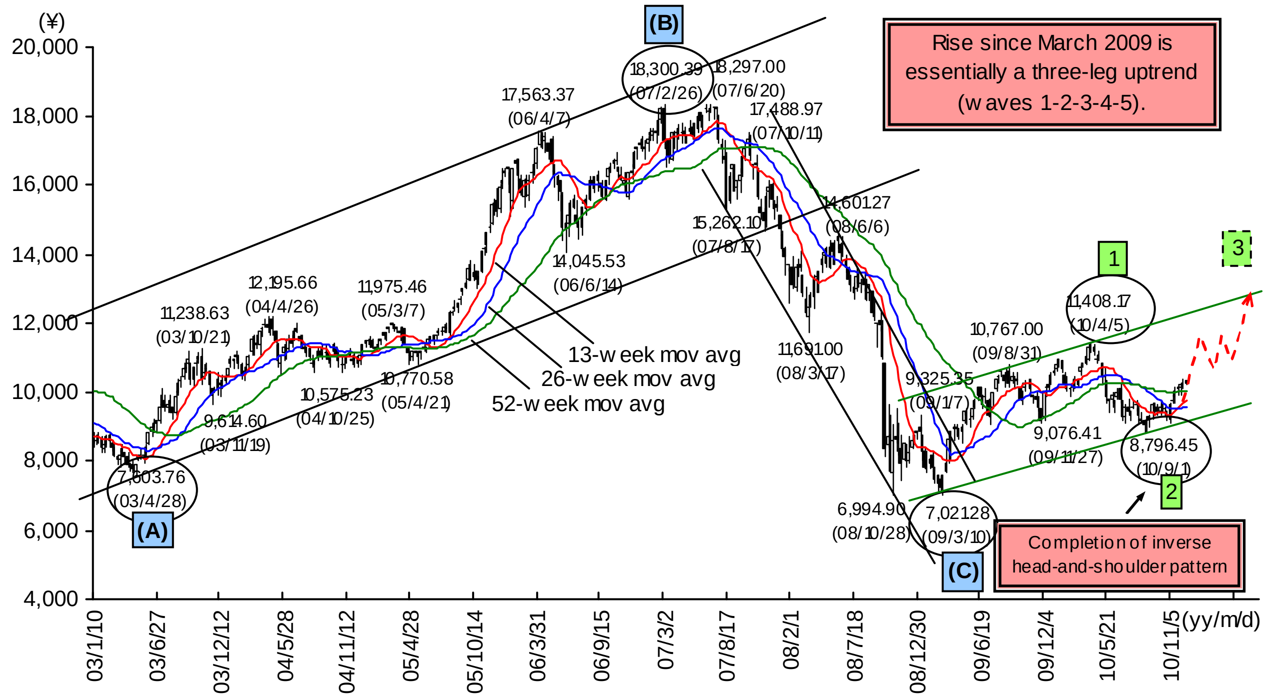
Developments such as the TSE-1 advance/decline ratio (25-day) rising to 163.5% at one point suggest that the market may have overheated in the near term, so the current hiatus is only to be expected (Exhibit 1-5). From an anomaly perspective too, in the last 10 years, the highest average rise in the Nikkei Average was in December, at 2.6%, while the index fell 2.1% in January, confirming that the index tends to react to rises in December in the previous year (Exhibit 1-1). With supply/demand considerations also showing heavy past cumulative trading for the Nikkei Average in the 9,500–10,500 range, we think Japanese equities could well come under considerable selling pressure as they rally after the current lull (Exhibit 1-4).

1-1. Nikkei Average monthly performance (%)

Month:	1	2	3	4	5	6	7	8	9	10	11	12
Monthly gains/losses												
CY 00	3.2	2.1	1.9	-11.6	-9.1	6.6	-9.7	7.2	-6.6	-7.7	0.7	-5.9
01	0.4	-6.9	0.9	7.2	-4.8	-2.2	-8.5	-9.7	-8.8	6.1	3.2	-1.4
02	-5.2	5.9	4.1	4.2	2.4	-9.7	-7.0	-2.6	-2.5	-7.9	6.7	-6.9
03	-2.8	0.3	-4.7	-1.8	7.6	7.8	5.3	8.2	-1.2	3.3	-4.3	5.7
04	1.0	2.4	6.1	0.4	-4.5	5.5	-4.5	-2.2	-2.3	-0.5	1.2	5.4
05	-0.9	3.1	-0.6	-5.7	2.4	2.7	2.7	4.3	9.4	0.2	9.3	8.3
06	3.3	-2.7	5.3	-0.9	-8.5	0.2	-0.3	4.4	-0.1	1.7	-0.8	5.8
07	0.9	1.3	-1.8	0.7	2.7	1.5	-4.9	-3.9	1.3	-0.3	-6.3	-2.4
08	-11.2	0.1	-7.9	10.6	3.5	-6.0	-0.8	-2.3	-13.9	-23.8	-0.8	4.1
09	-9.8	-5.3	7.1	8.9	7.9	4.6	4.0	1.3	-3.4	-1.0	-6.9	12.8
10	-3.3	-0.7	9.5	-0.3	-11.7	-4.0	1.6	-7.5	6.2	-1.8	8.0	3.8
Historical average (1) (entire period: May 1949–Dec 2010)												
Average	2.6	0.8	0.9	1.5	0.2	0.7	0.1	0.9	-0.7	-0.2	0.7	1.2
No. of months of rise	43	34	36	40	32	41	31	34	27	32	33	39
No. of months of fall	18	27	25	21	30	21	31	28	35	30	29	23
Historical average (2) (last 10 years: Jan 2000–Dec 2009)												
Average	-2.1	0.0	1.0	1.2	-0.0	1.1	-2.4	0.5	-2.8	-3.0	0.2	2.6
No. of months of rise	5	7	6	6	6	7	3	5	2	4	5	6
No. of months of fall	5	3	4	4	4	3	7	5	8	6	5	4

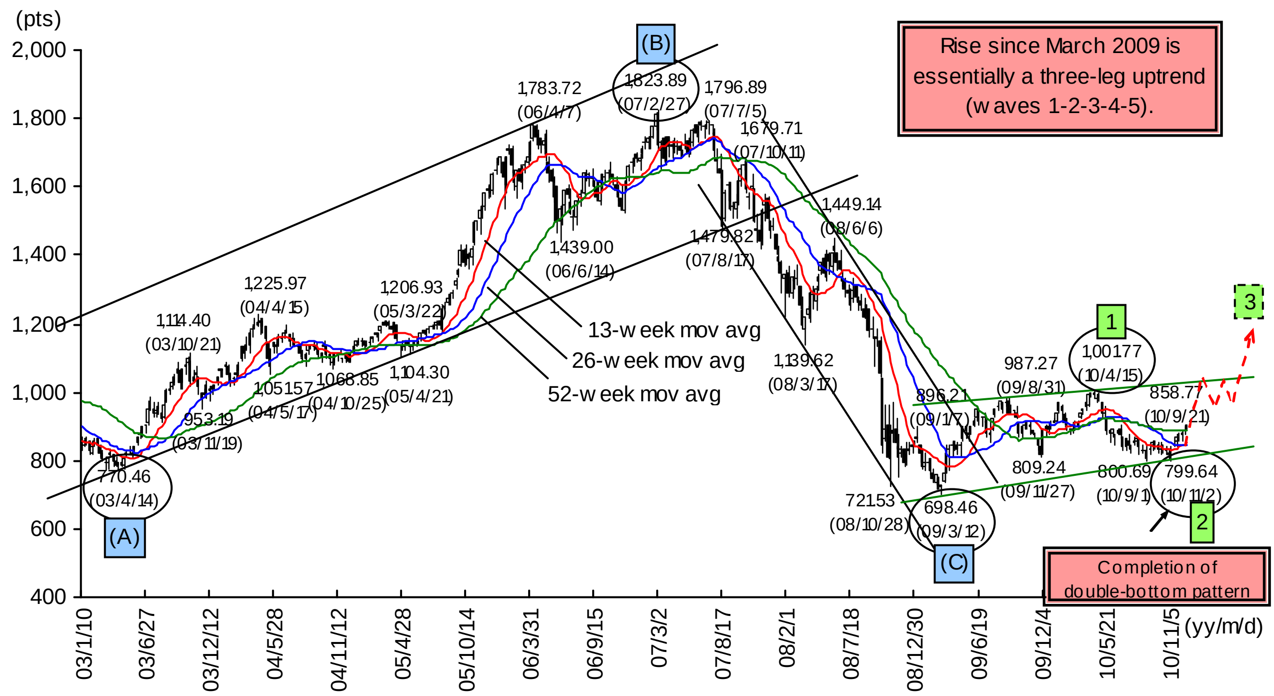
Note: December 2010 monthly gains and losses as of 15 December
Source: Nomura

1-2. Nikkei Average (weekly, intraday basis)



Source: Nomura

1-3. TOPIX (weekly, intraday basis)



Source: Nomura

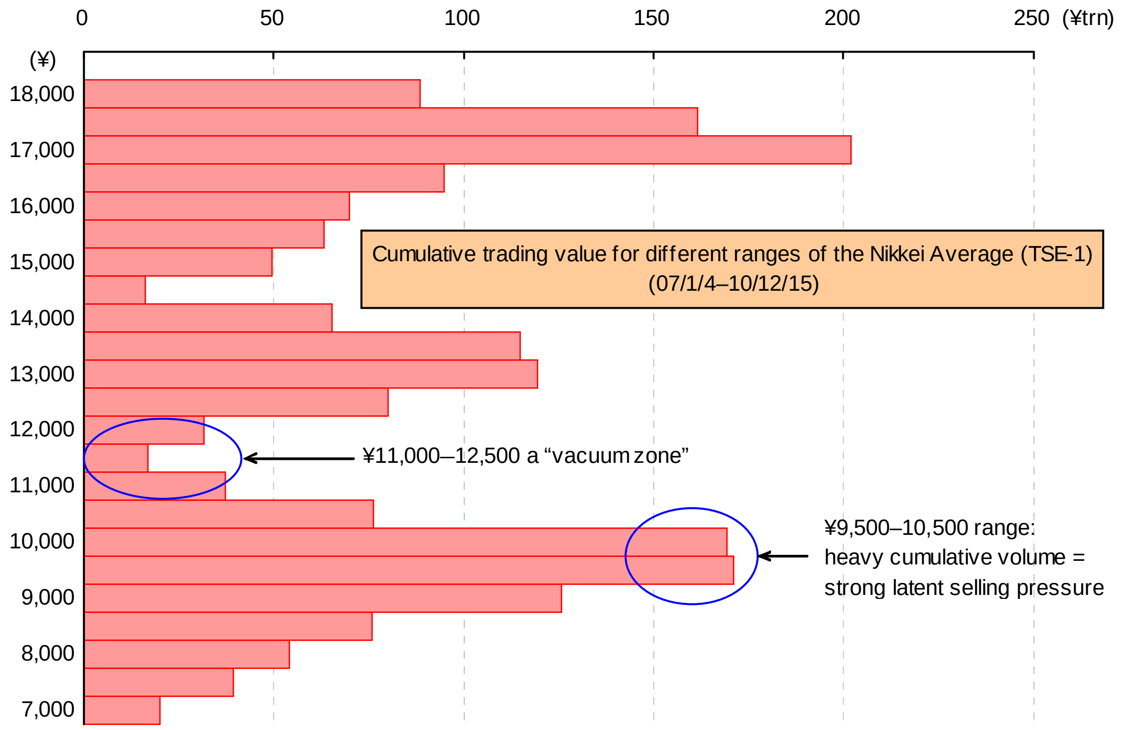
We expect Japanese equities to gradually push higher toward end of 2011

However, looking at 2011 as a whole, the regaining by the Nikkei Average and the TOPIX of their April 2010 highs is merely an interim target, in our view. Wave formation suggests to us that the market correction since April, corresponding to downward wave 2, has now ended and that the market is now in the initial phases of a full-fledged upswing (upward wave 3). The upward phase from the March 2009 low to the April 2010 high, corresponding to upward wave 1, lasted for roughly one year, which suggests to us that the upswing corresponding to upward wave 3 is likely to last for at least one to one and a half years. Accordingly, we expect Japanese equities to gradually push higher moving toward the end of 2011. After reclaiming the April high, we think the Nikkei Average could target 12,661, a 50% retracement of the decline from the February 2007 high of 18,300 to the March 2009 low of 7,021, and that the TOPIX could reach 1,128, a 38.2% retracement of the decline from the February 2007 high of 1,823 to the March 2009 low of 698.

Expecting rebound by financial stocks, centered on banks

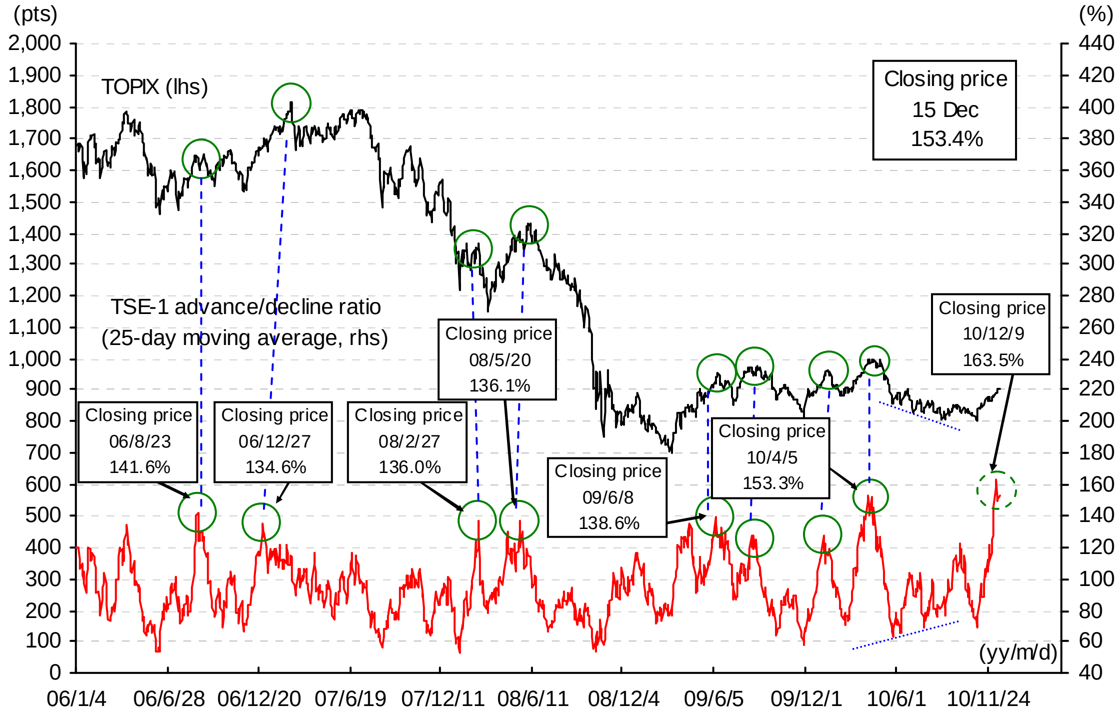
In terms of stock selection, catch-up gains by long-term underperformers are likely to be the driving force that lifts the major indices in 2011. Financial stocks are at the top of our list of likely upside leaders. Banking sector stocks are at the climax of a medium-term three-stage decline dating back to December 1989 (waves 1-2-3-4-5), while as a result of the decline they are 60% below their five-year (60-month) moving average. As such, we think the 2 November 2010 low of 106.99 was a major bottom (Exhibit 1-6). As a historical rule of thumb, bank stocks follow a medium-term cycle, reaching key highs roughly every six years. As the last high was 508 in April 2006, the next should come in April 2012. This also coincides with the trend since 1990, in which once bank stocks start to rebound, they tend to rise steadily for around 12–16 months, aiming for the five-year (60-month) moving average. The TOPIX bank index was 130 as of 15 December 2010, with its five-year (60-month) moving average at 266. Back-calculating from these levels (assuming that the moving average falls 5–6pt monthly), we estimate that the index could very well gain 50–60% toward the end of 2011.

1-4. Cumulative trading value for different ranges of the Nikkei Average (TSE-1)



Note: Ranges in units of 500, for example, "7,000 range" denotes range from 7,000 to 7,500
Source: Nomura

1-5. TSE-1 advance/decline ratio (25-day average) and the TOPIX



Note: TSE-1 advance/decline ratio (25-day average) = total no. of gainers on TSE-1 in past 25 days / total no. of losers x 100
Source: Nomura

1-6. Long-term chart of the TOPIX bank index (monthly, intraday basis)

Source: Nomura

2. US equities: likely to rise from summer through early fall after near-term correction

Wave count points to further upside in 2011

US equities have started rising gradually once more, after a near-term correction in November. In terms of wave count, US equities are now in their second upward phase, corresponding to upward wave (C) that started in July 2010, and we think there could be further upside in 2011. Upward wave (C) is a five-leg pattern and the market is now in the closing stages of the first upward phase of (C) (ie, the rally following November's near-term correction corresponding to the final subwave (5) of the first upward wave of (C)) (Exhibits 2-1 and 2-2).

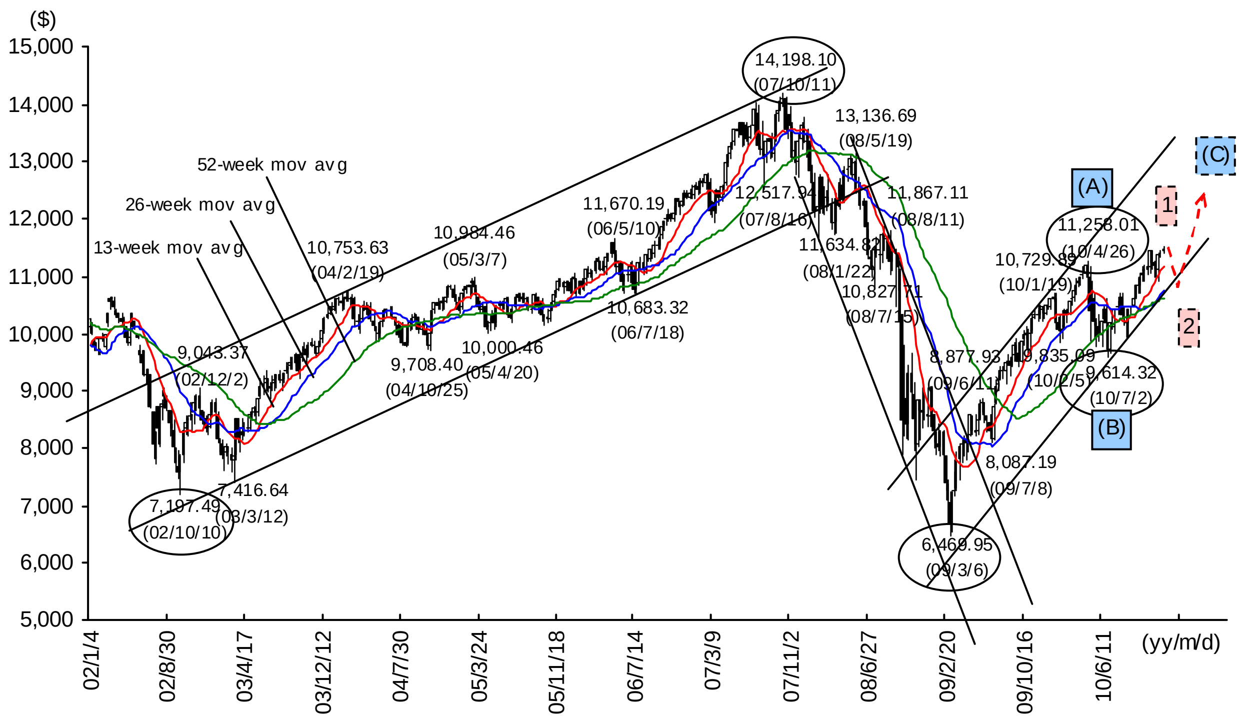
We expect brief correction in near term

We think there could be a brief correction once the current upward phase is over (ie, a downward phase corresponding to downward wave 2). Technical indicators have increasingly pointed to overheating, with growing bullishness among individual investors a prime example (as shown by the Bull/Bear index), and past experience suggests that a correction is needed (Exhibit 2-3). We think the market is likely to remain in a holding pattern incorporating some correction until Feb–Mar 2011, when the next near-term (four-month) cyclical bottom is due.

Market could test further upside from summer through early fall

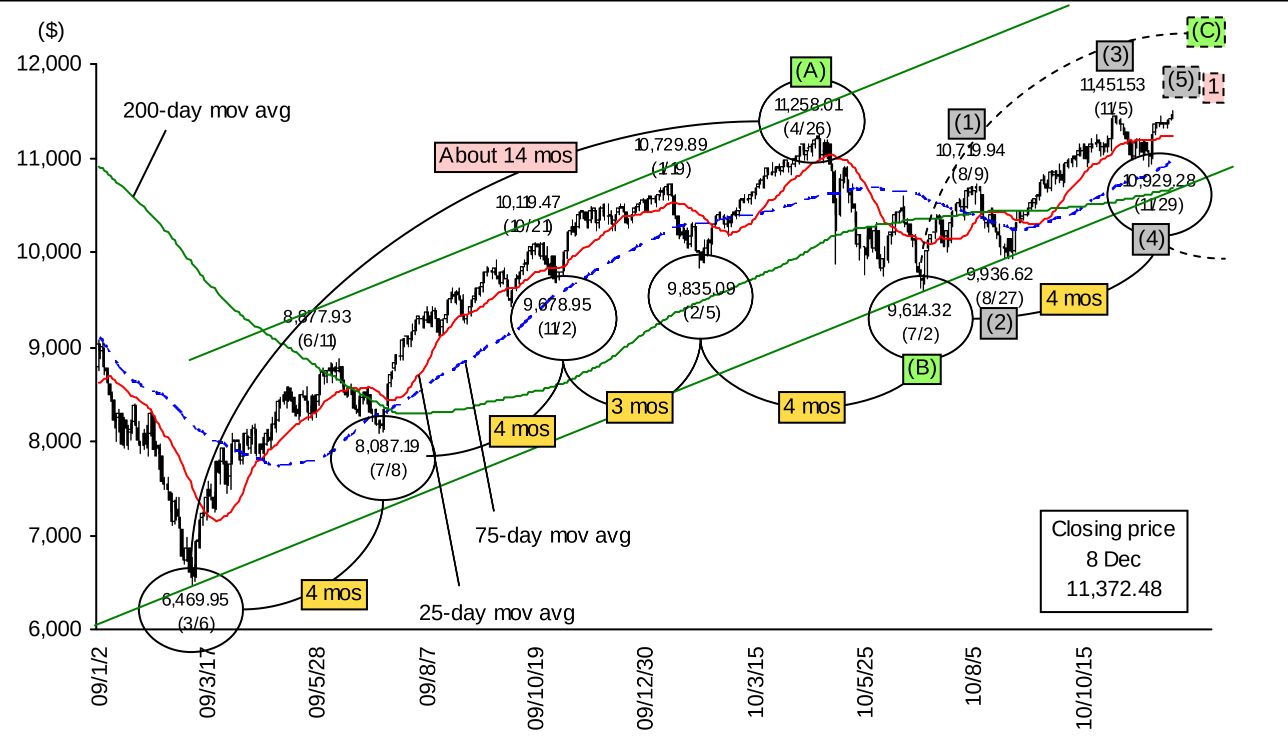
Once the correction has run its course, we would expect a renewed upward trend (upward phase corresponding to upward wave 3). Assuming that upward wave (C) is broadly equivalent to upward wave (A), we would expect US equities to maintain robust gains in summer through early fall 2011. Once they start to rise again, we think the DJIA will target 12,374, which would be a 76.4% retracement of the decline from the October 2007 high of 14,198 to the March 2009 low of 6,469; the S&P 500 could target 1,361, a 76.4% retracement of the fall from the October 2007 high of 1,576 to the March 2009 low of 666; and the NASDAQ Composite could target its October 2007 high of 2,861 (Exhibits 2-1, 2-4, and 2-5).

2-1. Dow Jones Industrial Average (weekly, intraday basis)



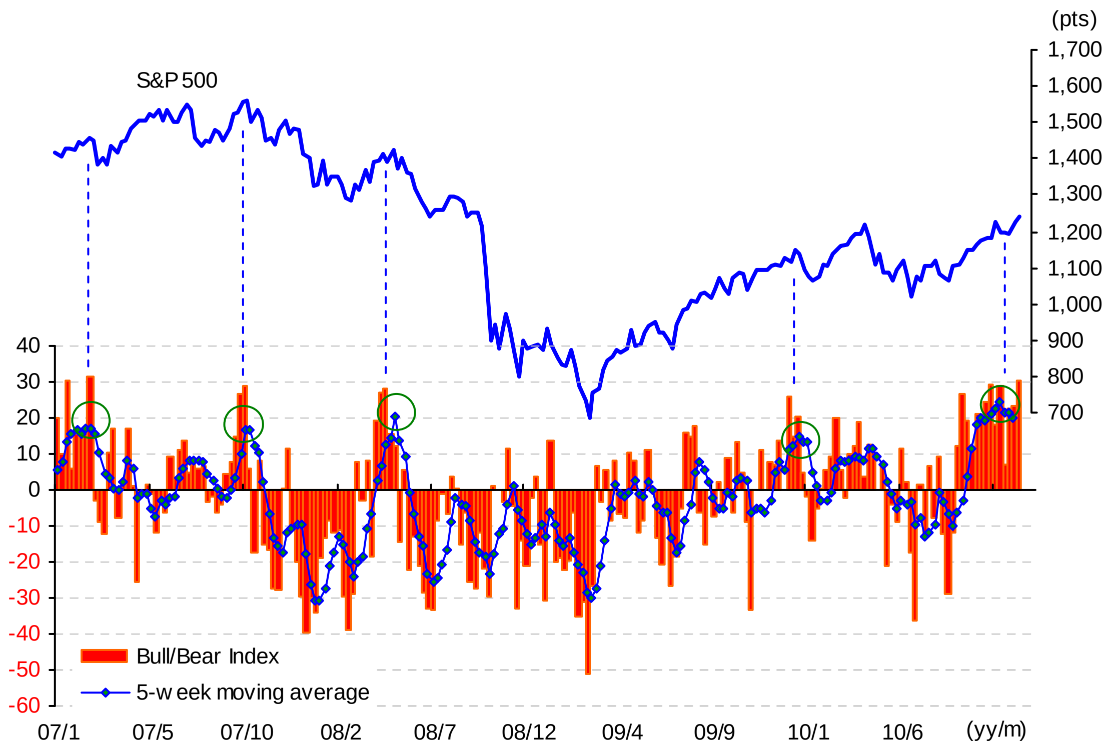
Source: Nomura

2-2. Dow Jones Industrial Average (daily trend)



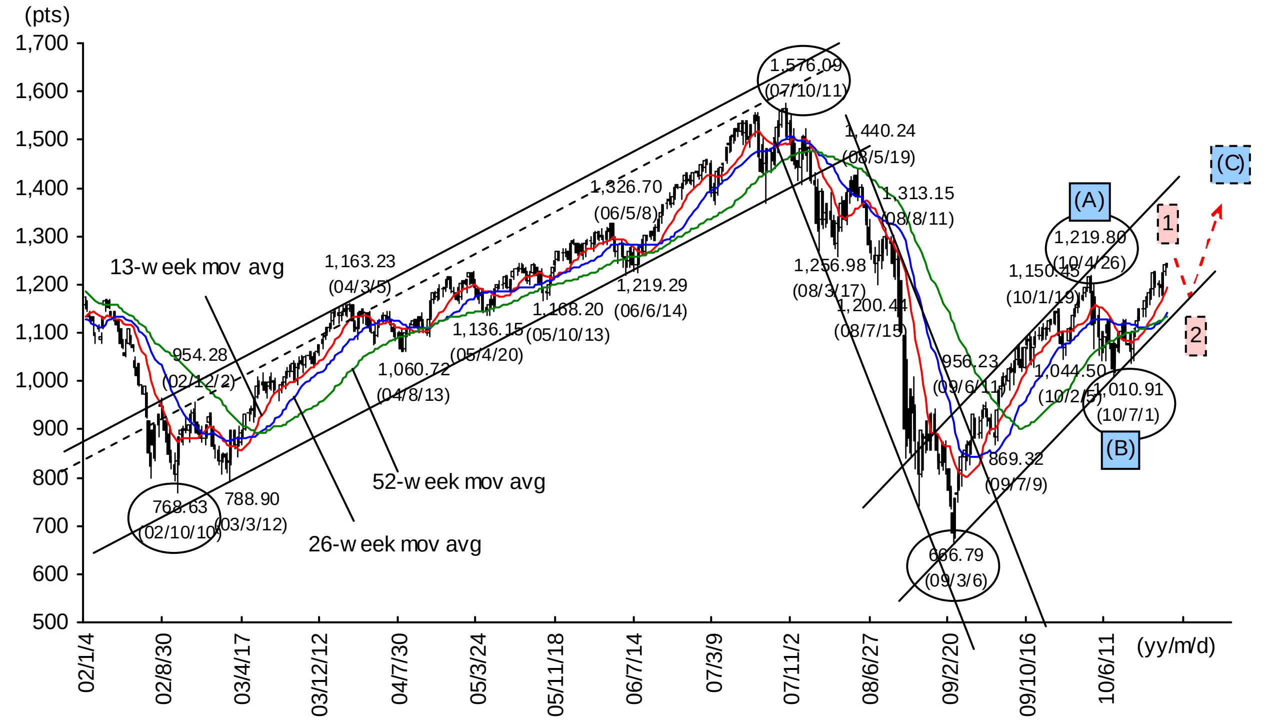
Source: Nomura

2-3. S&P 500 and US individual investor sentiment



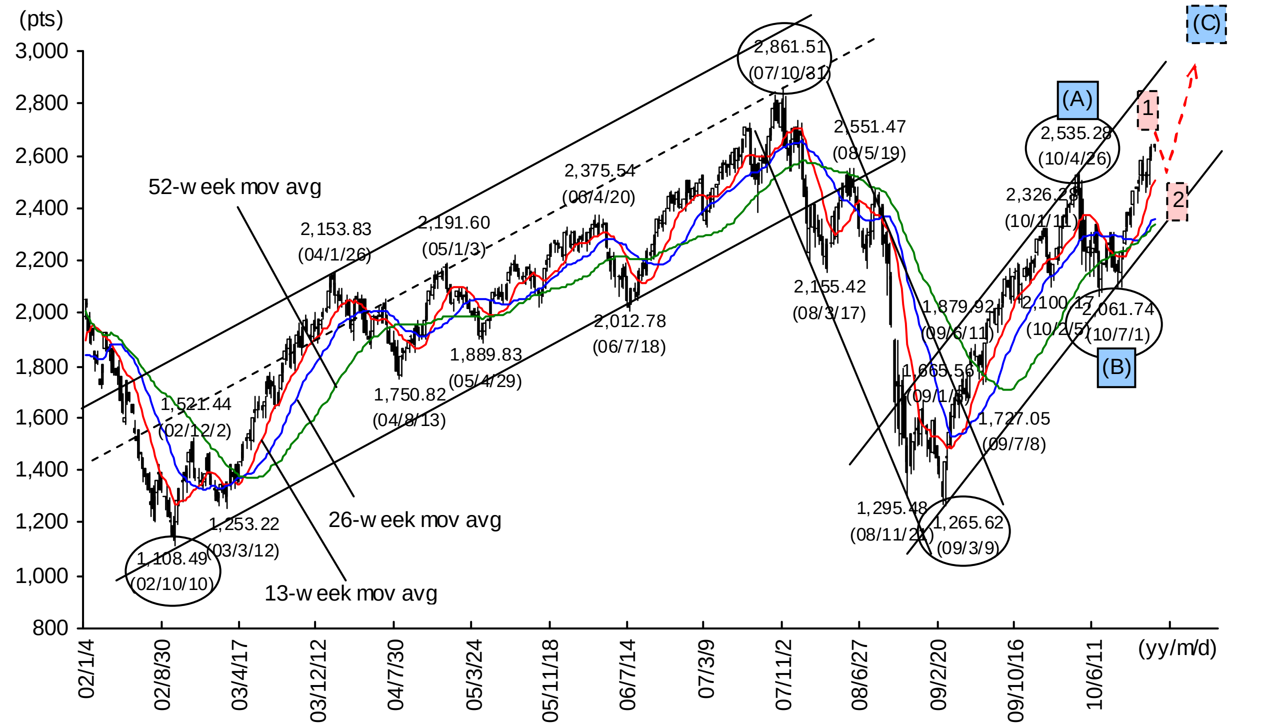
Note: Weekly survey asking individual investors whether they are bullish, neutral, or bearish on share price outlook for next six months; Bull/Bear Index = % of bullish responses –% of bearish responses
Source: Nomura, based on American Association of Individual Investors survey

2-4. S&P 500 (weekly, intraday basis)



Source: Nomura

2-5. NASDAQ Composite (weekly, intraday basis)



Source: Nomura

3. Bond market: Japanese and US bond markets switch to downtrend (rising interest rates)

(1) Japanese bond market: JGB futures look likely to fall sharply to around ¥130 toward mid-2011

JGB futures switching to medium-term downtrend

In contrast to the stock market, JGBs were bought aggressively in 2010 on expectations of additional quantitative easing by the central banks of Japan and the US, and the JGB futures price (benchmark contract) reached ¥144.31 at one stage in October 2010 (while the yield on newly issued 10-year JGBs at one point fell to 0.82%) (Exhibits 3-1 and 3-2). However, from a chart perspective, JGB futures appear to have recently formed a medium-term double top with the June 2003 high of ¥145.28 and we see a strong possibility that there has been a transition to a medium-term downward trend.

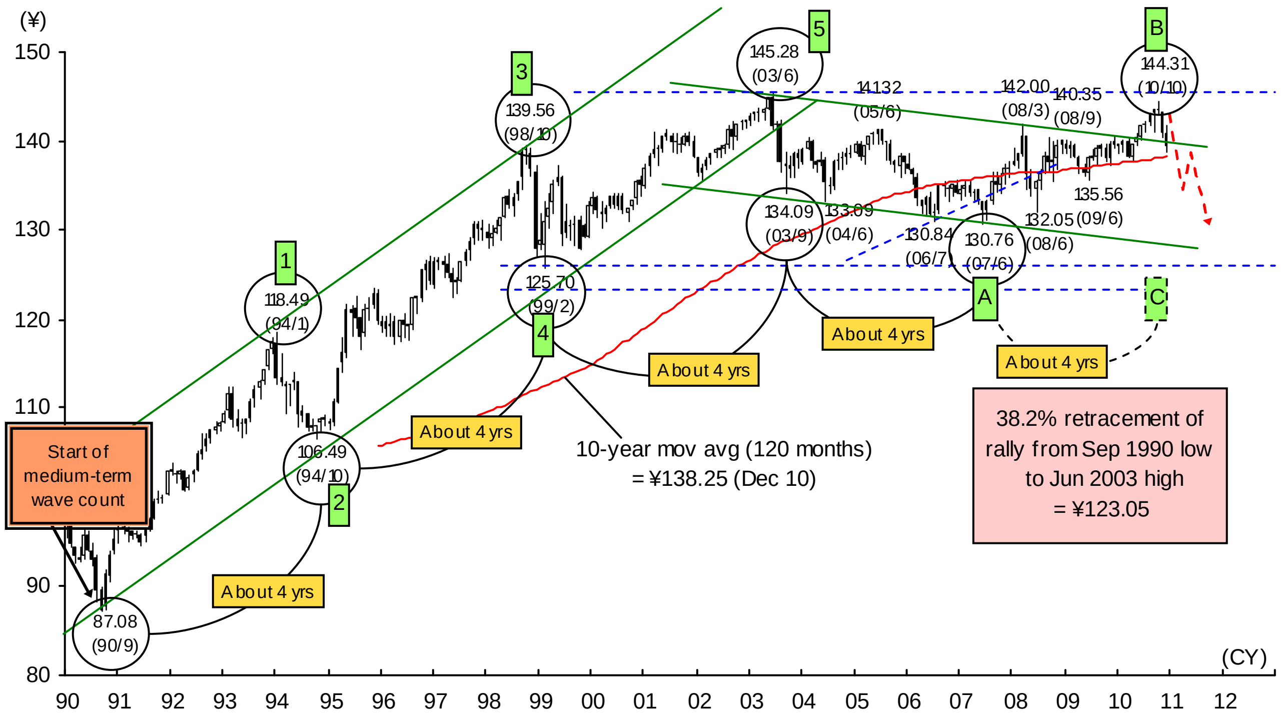
Likely to fall through mid-2011, when end of four-year trough-to-trough cycle is due

First, we note that JGB futures tend to follow a medium-term cycle that reaches a major bottom roughly once every four years. The previous cyclical bottom was in June 2007, at ¥130.76, which suggests that the next cyclical bottom is due around June 2011. Second, from the perspective of wave formation, the rise in JGB futures prices since June 2007 can be seen as an interim rally corresponding to upward wave B and the recent rises suggest that buying activity has reached a climax. Our main scenario sees the formation of a peak in upward wave B as marking a transition to a downward trend that corresponds to downward wave C.

Our downside target is around ¥130, level of July 2006-June 2007 double bottom

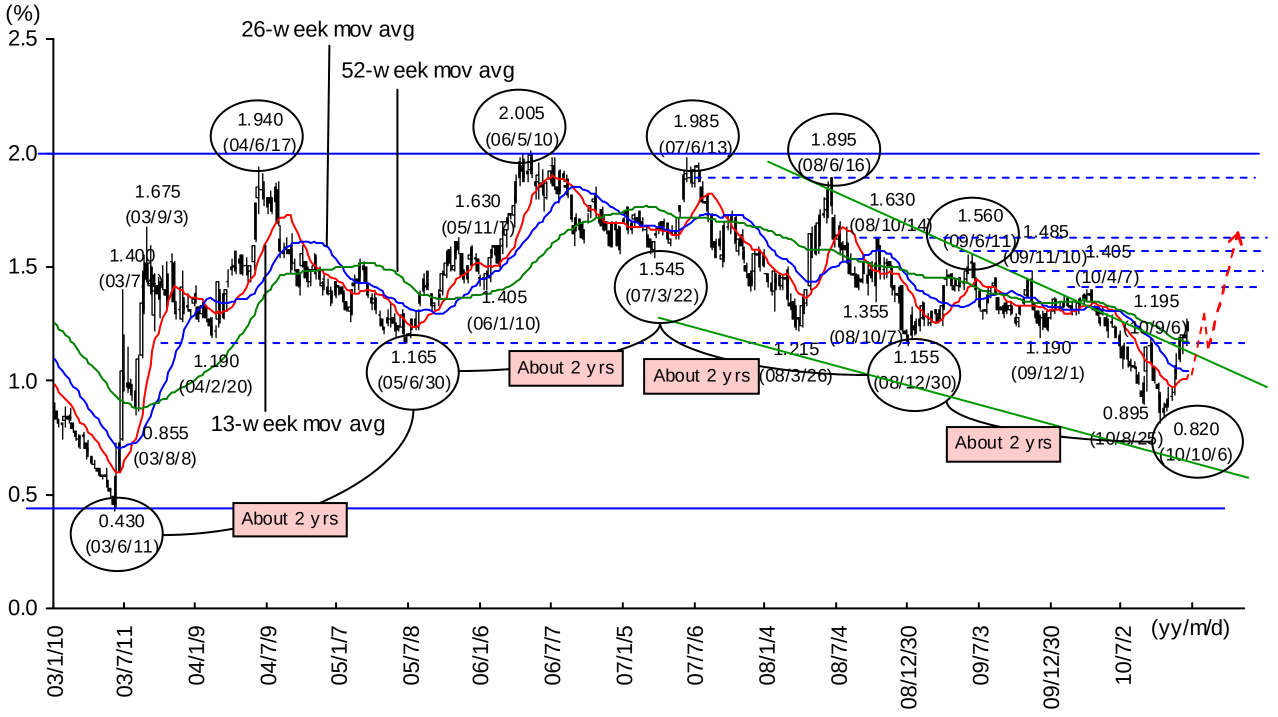
Considering that only around six months are left before the next four-year cyclical bottom is due, we think the downward trend heading toward the middle of 2011 could be quite steep. In the near term, we expect the decline to pause around ¥138, where the 10-year (120-month) moving average is situated, but once the downward trend resumes we look for it to continue to around the ¥130 mark (yield of around 2.0% on newly issued 10-year JGBs), which is the level of the double bottom formed between July 2006 and June 2007. We think a sharp decline in JGB prices could lead to a market rethink on Japanese equities.

3-1. 10-year JGB futures (benchmark contract, monthly, intraday basis)



Source: Nomura

3-2. New-issue 10-year JGB yield (weekly data, intraday basis)



Source: Nomura

(2) US long-term interest rates: key threshold awaits after recovery to 4%

Second upward phase

The yield on the 10-year US T-note (US long-term interest rate) bottomed at 2.330% on 8 October, then rose sharply by just over 100bp in a little over two months to reach 3.391% at one stage on 14 December. In terms of wave formation, we think the decline in US long-term interest rates that equates to downward wave B, which started at 2.330% on 8 October, has ended and that long-term rates have entered a second upward phase corresponding to upward wave C (Exhibit 3-3).

Should reach 4%

The 10-year US Treasury yield has already broken through the first rebound target, ie, the October 2009 level of 3.104%, corresponding to the neckline for the double top of June 2009 and April 2010, and we expect it to test the medium-term resistance line linking the June 2007 level of 5.323% and the April 2010 level of 4.010% (currently 3.65%, weekly decline of around 1bp). Further ahead, we think the yield will break through this level to test the June 2009 level of 4.004%, the April 2010 level of 4.010%, and the 10-year (120-week) moving average of 4.13%. For Japanese equities, which move in close correlation with US long-term interest rates, the switch to a rising trend in US long-term interest rates is basically a positive development.

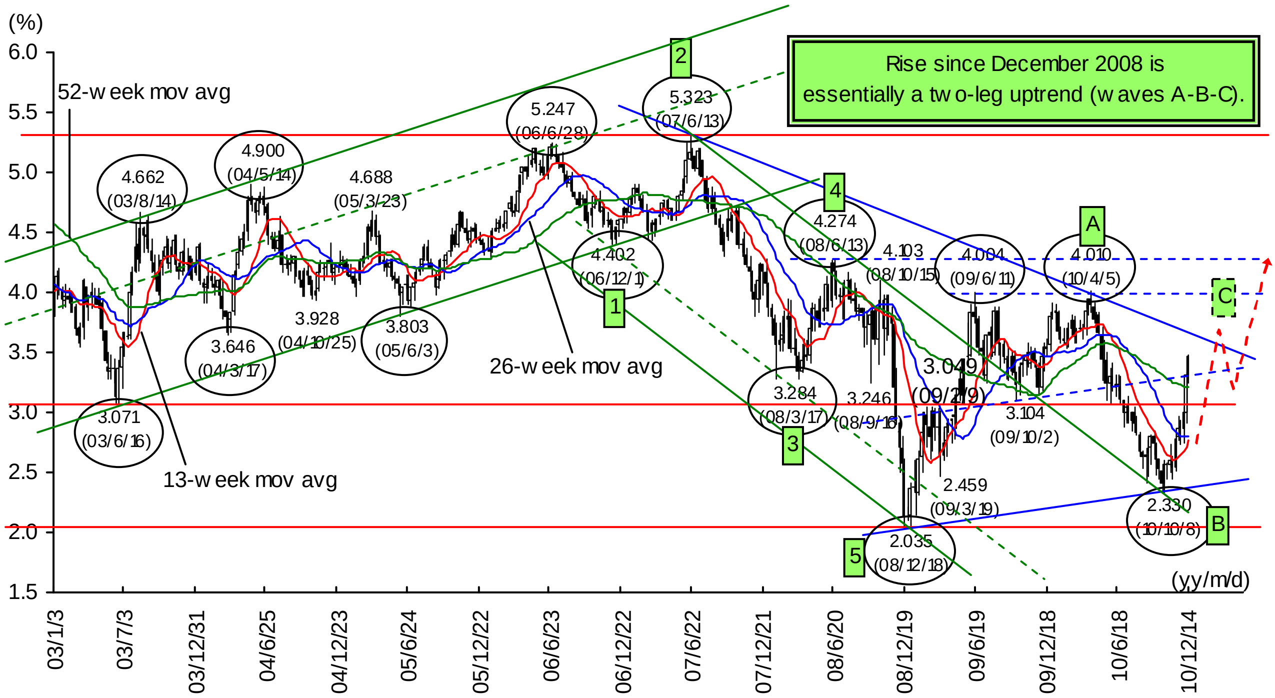
Key thresholds with eye on change in long-term downtrend

The year 2011 could be a key one for US long-term interest rates. US long-term rates tend to follow a medium-term cycle that reaches a major peak roughly once every five to six years (Exhibit 3-4). As the last peak was 5.247% in June 2006, the next should come in 2011–12. Since the mid-1980s, US long-term interest rates have trended downward in line with a downward channel from the medium-term cycle top to its bottom. The resistance line of the downward channel is currently around 4.5% (monthly decline of 1–2bp) and we think the rate will fall to 4.3% in the run-up to the end of 2011.

Could switch to rise looking toward 2012 if trend changes

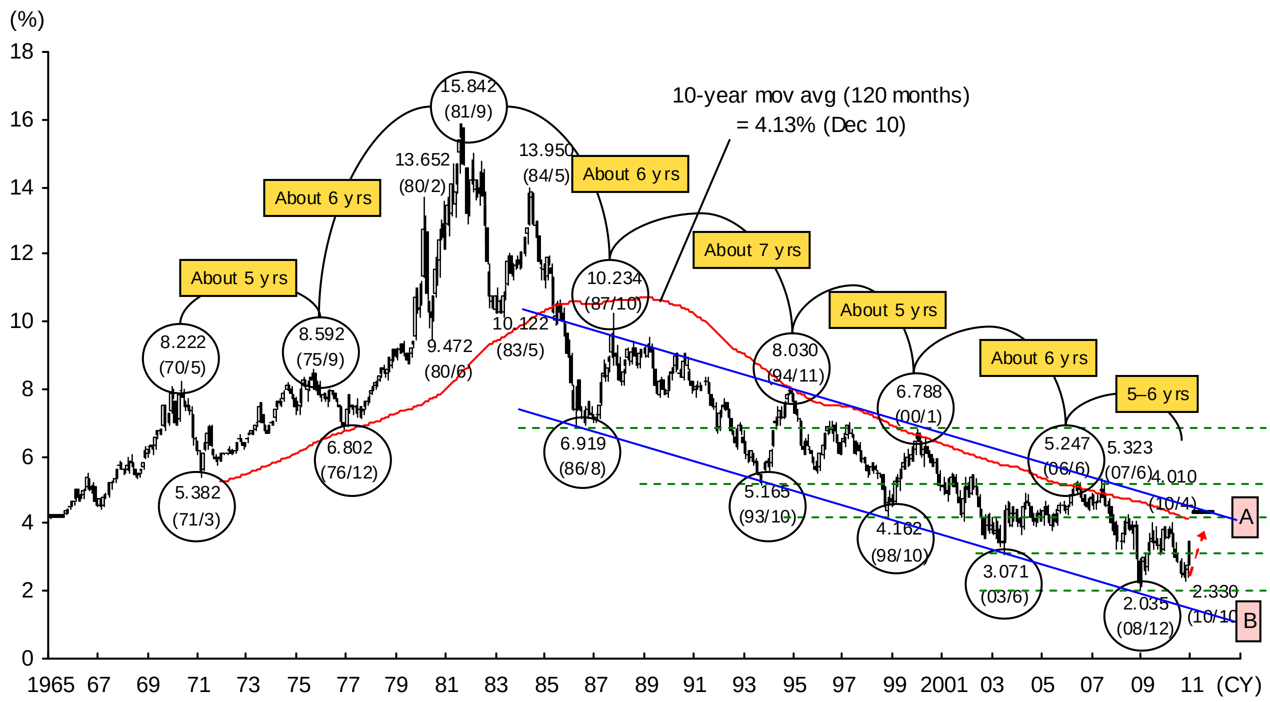
If in 2011 the rate clearly looks as though it is going to rise above the downward channel, the December 2008 level of 2.035% will likely be a major bottom and it will look likely that the long-term downtrend in US long-term interest rates has changed direction. In that case, the wave cycle that started in December 2008 would not be the current three-leg a-b-c wave formation (two-leg rebound), but rather a five-leg 1-2-3-4-5 wave formation (three-leg upward trend) and we would expect US long-term interest rates to rise toward 2012. We would expect the rate to test around 5.3%, where a number of key junctures on the chart are situated, such as 5.247% in June 2006, 5.323% in June 2007, and 5.29%, representing a 23.6% retracement of the decline from 15.842% in September 1981 to 2.035% in December 2008.

3-3. US 10-year Treasury yield (weekly data, intraday basis)



Source: Nomura

3-4. US 10-year Treasury yield (monthly data, intraday basis)



Source: Nomura

4. Forex market: shift to weaker yen trend

(1) USD/JPY: appears likely to head toward 95 in 2011 H2

Yen appreciation trend appears likely to reverse

The strong yen has caused Japanese equities to struggle in 2010. However, the charts suggest that USD/JPY is likely to swing back in the direction of yen weakness in 2011 and we expect this to provide a boost to Japanese equities. First, from a cyclical perspective, we think the low of 80.21 reached in November 2010 likely marks a short-term trough-to-trough bottom with the November 2009 low of 84.83 and possibly a medium-term trough-to-trough bottom with the January 2005 low of 101.68. Second, from a wave structure perspective, we think the November 2010 low of 80.21 is likely to have marked a bottoming in the decline of the dollar, corresponding to downward subwave (3) of downward wave V, and a transition to a rally in the dollar, corresponding to upward subwave (4). We expect the underlying trend to be a weak yen/strong dollar for the time being (Exhibit 4-1).

USD/JPY could head toward 95

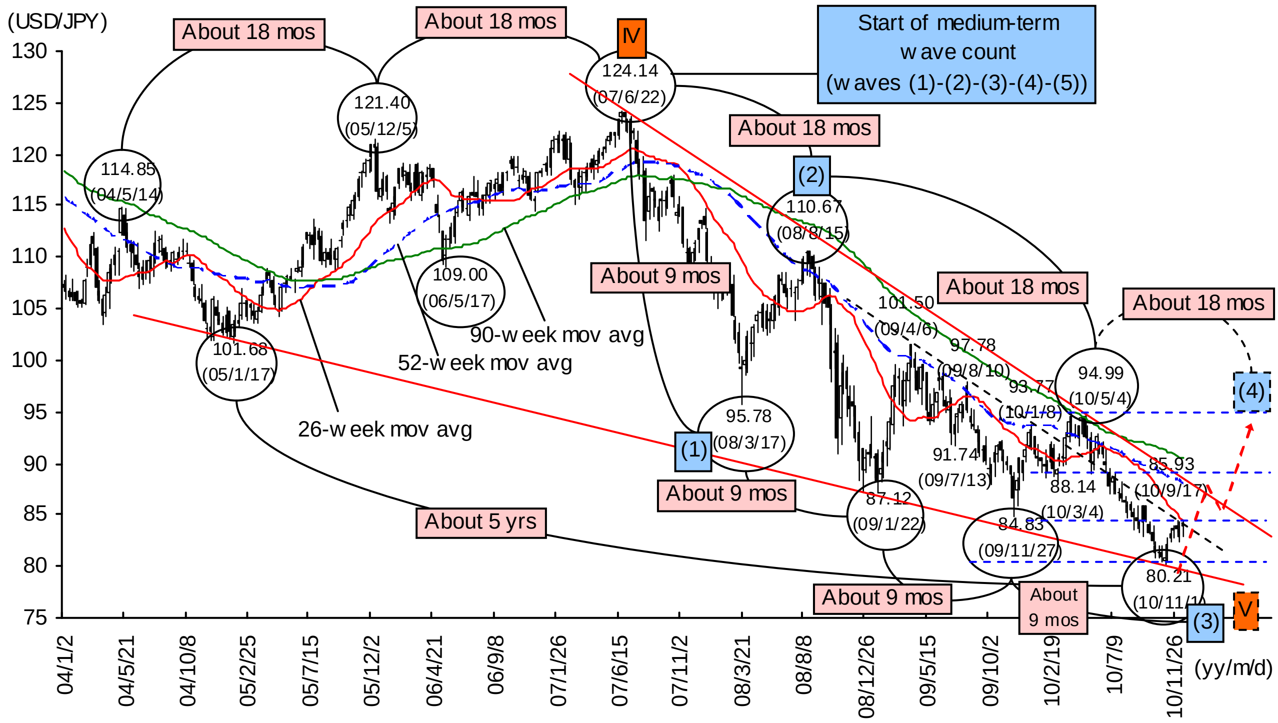
From a cyclical perspective, we expect the weak yen/strong dollar trend that started with the November 2010 low to continue until around mid- to late 2011, which should mark the top of the approximately 1.5-year peak-to-peak cycle from the dollar's May 2010 high. If the trend proceeds smoothly, we would expect USD/JPY to reach around 95. Several key junctures are concentrated around this level, including (1) the May 2010 high of 94.99, (2) a one-third retracement of the decline from the June 2007 high of 124.14 to the November 2010 low of 80.21, at 94.85, and (3) a 50% retracement of the decline from the August 2008 high of 110.67 to the November 2010 low of 80.21, at 95.44. We thus think the dollar's 2011 rally high is likely to be around this level.

(2) EUR/JPY: looks likely to head toward 120 through spring 2011

Yen appreciation trend looks likely to reverse

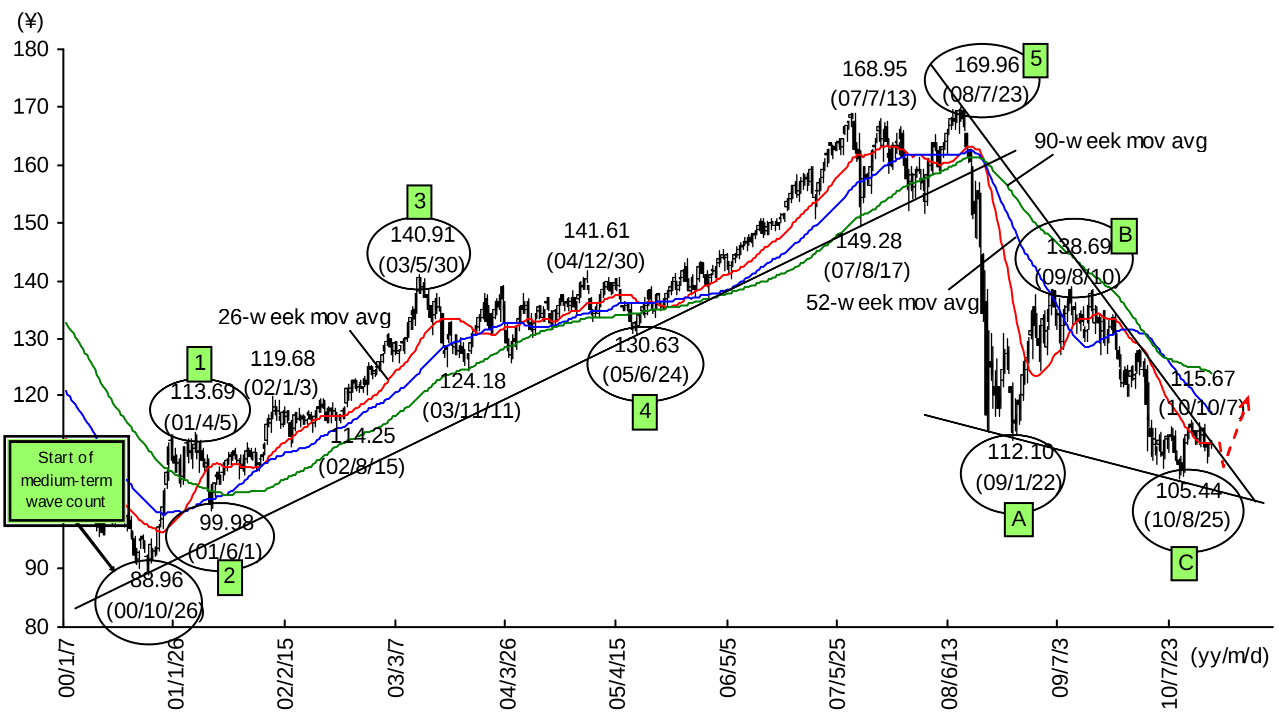
We think the yen is also likely to reverse direction and weaken against the euro in 2011. From a wave structure perspective, we think the August 2010 low of 105.44 probably marked a bottom and that the two-leg downward correction (waves A and C of the A-B-C formation) from the July 2008 peak of 169.96 is already over. Although EUR/JPY has pulled back from its 7 October recovery high of 115.67, we think it could regain upward momentum if it can break out above the medium-term resistance line drawn through its July 2008 high of 169.96 and its August 2009 high of 138.69. If it does test this resistance successfully, our next target would be 118.14–122.07 (a 38.2–50% retracement of its decline from its August 2009 high of 138.69 to its August 2010 low of 105.44) by next spring. If it can regain the key psychological level of 120 sooner rather than later, it could test 130.09 (a 38.2% retracement of its decline from its July 2008 high of 169.96 to its August 2010 low of 105.44) in 2011 H2 (Exhibit 4-2).

4-1. USD/JPY (weekly, intraday basis)



Note: Based on London forex market
Source: Nomura

4-2. EUR/JPY (weekly, intraday basis)



Note: Based on London forex market
Source: Nomura

(3) EUR/USD: appears likely to form pennant after rallying through spring 2011

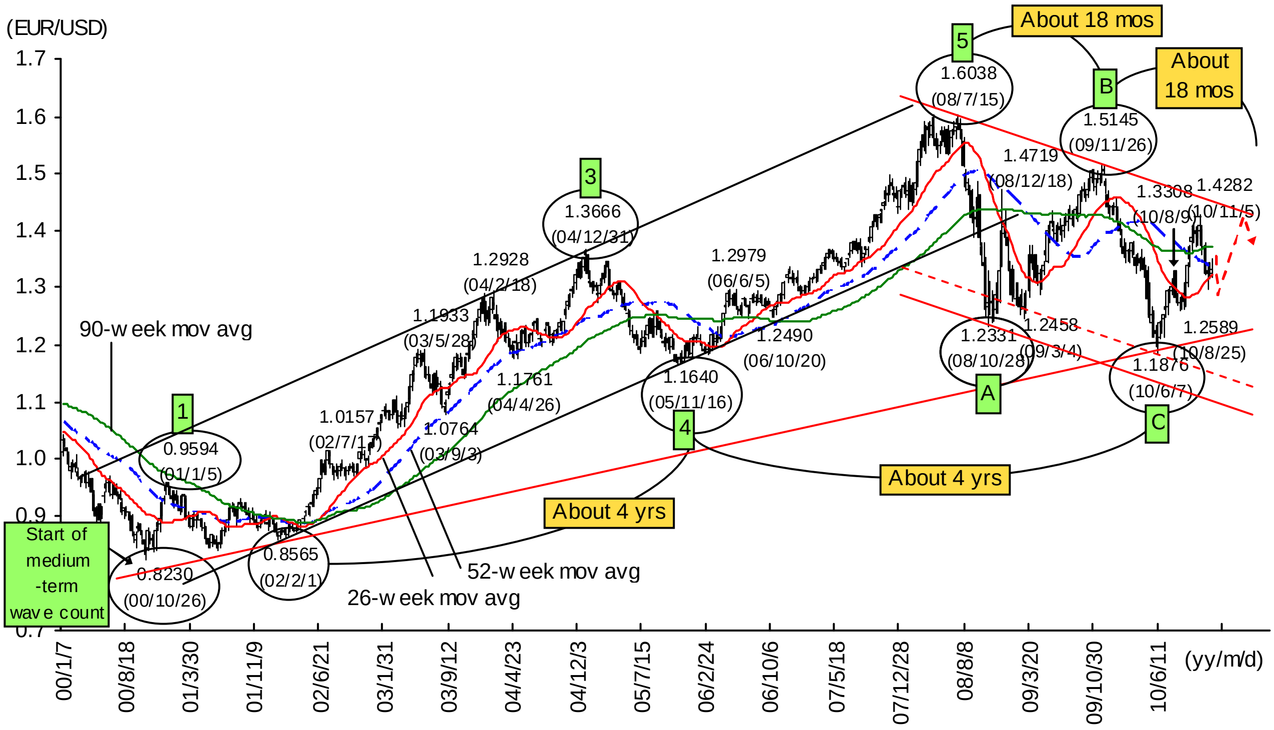
Bullish trend appears likely until next spring

Since rallying to 1.4282 on 5 November 2010, EUR/USD has pulled back, breaking below 1.30 at one point on 30 November. However, we do not think it has entered another downtrend. EUR/USD has a medium-term cycle that tends to form a major bottom every four years or so. We think its June 2010 low of 1.1876 was probably just such a bottom. As EUR/USD also has a short-term cycle of about 18 months and the peak of the last such cycle was the November 2009 high of 1.5145, we think EUR/USD is likely to trend higher until spring 2011 (Exhibit 4-3).

Formation of pennant after next spring looks likely

Because of its recent pullback, however, we think EUR/USD is now unlikely to break out above the resistance line drawn through its July 2008 high of 1.6038 and its November 2009 high of 1.5145 by next spring. We think that after next spring it is likely to form a pennant with a bottom line extending through its February 2002 low of 0.8565 and its June 2010 low of 1.1876 and the top line running through its July 2008 high of 1.6038 and its November 2009 high of 1.5145.

4-3. EUR/USD (weekly, intraday basis)



Note: Based on London forex market
Source: Nomura

5. Commodity market: expecting correction after formation of high

(1) NY crude oil: if prices continue to rise, we could see $103/bbl around April 2011

Key threshold of $90/bbl reached

WTI crude oil futures (front-month contract) have reached a key chart threshold. Based on the wave formation, we think it reasonable to view the market as still being in the upward phase (upward wave B) that started in December 2008. WTI futures rose to $90.76/bbl at one stage on 7 December 2010 and reached $89.84, a 50% retracement of the decline from the July 2008 high of $147.27 to the December 2008 low of $32.40 (Exhibit 5-1).

If prices start to fall, target will likely correct to $60 level

However, prices may be at the end of the upward phase (upward wave B) since December 2008. If prices start to fall and slip below the most recent low ($80.06 on 17 November), we think the target futures price would likely correct to $61.58–68.47, a 38.2–50.0% retracement of the rally from the December 2008 low of $32.40 to the December 2010 high of $90.76 (Exhibit 5-2). In terms of supply/demand, too, we note that speculative long positions in crude oil futures are already at historical highs and investors should be aware of correction risk ahead (Exhibit 5-3).

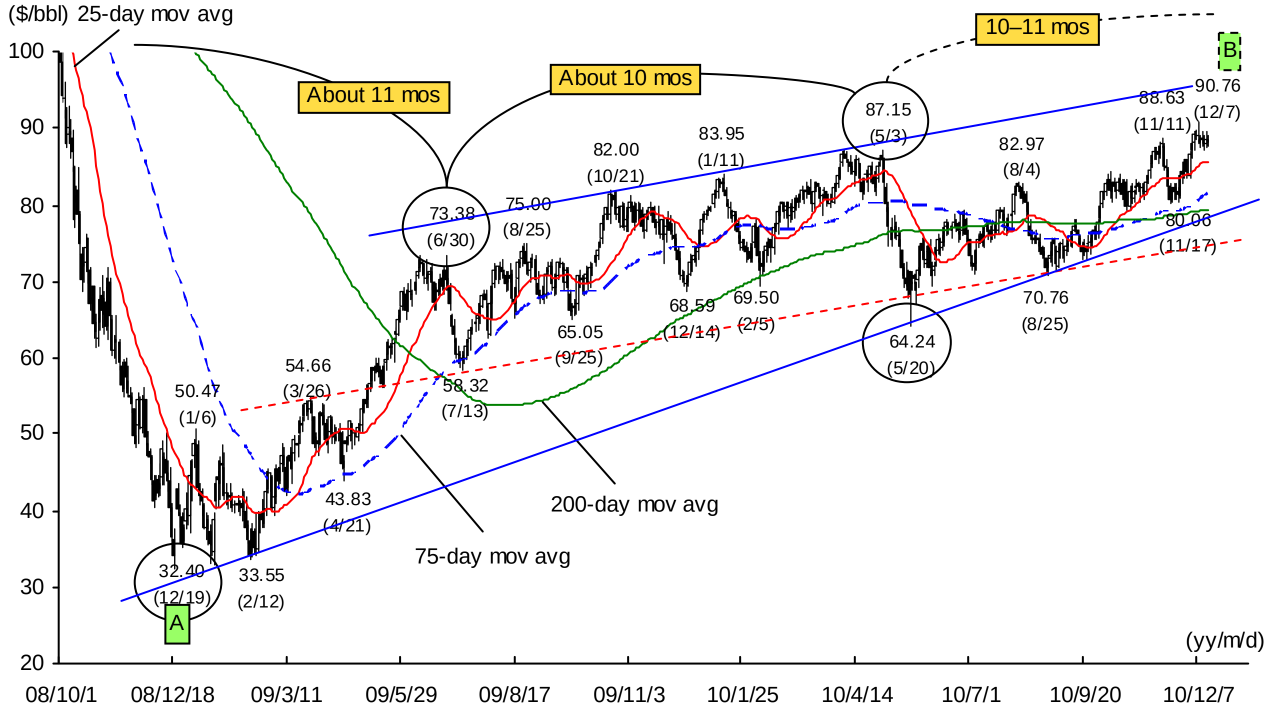
If WTI crude oil futures price continues to rise, it could test $103 toward April 2011

If the price were to rise higher, however, in the run-up to around April 2011, when the 10- to 11-month cycle top should arrive, we think it could test around $103.39, representing a 61.8% retracement of the decline from the July 2008 high of $147.27 to the December 2008 low of $32.40. However, as we expect a move into a correction phase with a target of a 38.2–50% retracement of the rise from December 2008 after the price peaks, this could be the high for 2011.

5-1. WTI crude oil futures (front-month contract) monthly data (intraday basis)

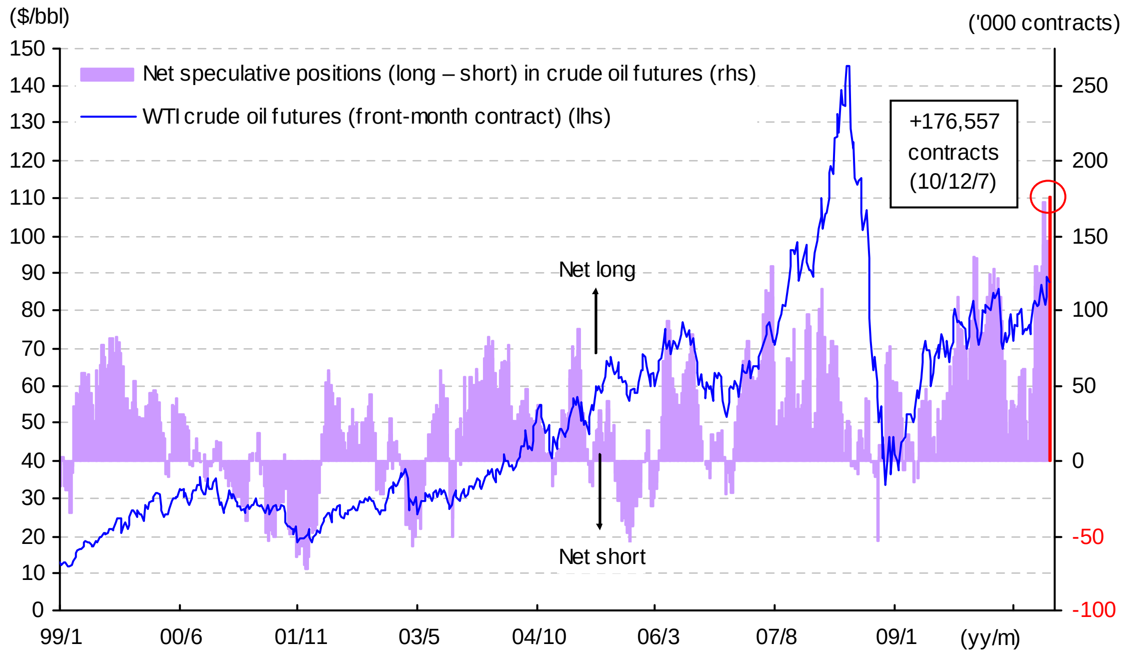
Source: Nomura

5-2. WTI crude oil futures front-month contract (daily basis)



Source: Nomura

5-3. Net speculative positions in crude oil futures



Note: (1) Crude oil futures positions in noncommercial sector taken as equivalent to speculative positions. (2) WTI futures prices as at weekly close.
Source: Nomura, based on Commodity Futures Trading Commission (CFTC) data

(2) NY gold: speedy correction looks possible from summer to autumn 2011 after prices top out

Near-term target is about $1,484/troy oz

COMEX gold futures (front-month contract) have stayed high after breaking above the historical high, reaching $1,431/troy oz at one point on 7 December 2010. Wave formation suggests that they remain on an uptrend corresponding to the upward wave V that started with the October 2008 low of $681. Currently, we think prices could target $1,484, equivalent to the rise from the February low of $1,045 added to the June high of $1,264 (Exhibits 5-4 and 5-5).

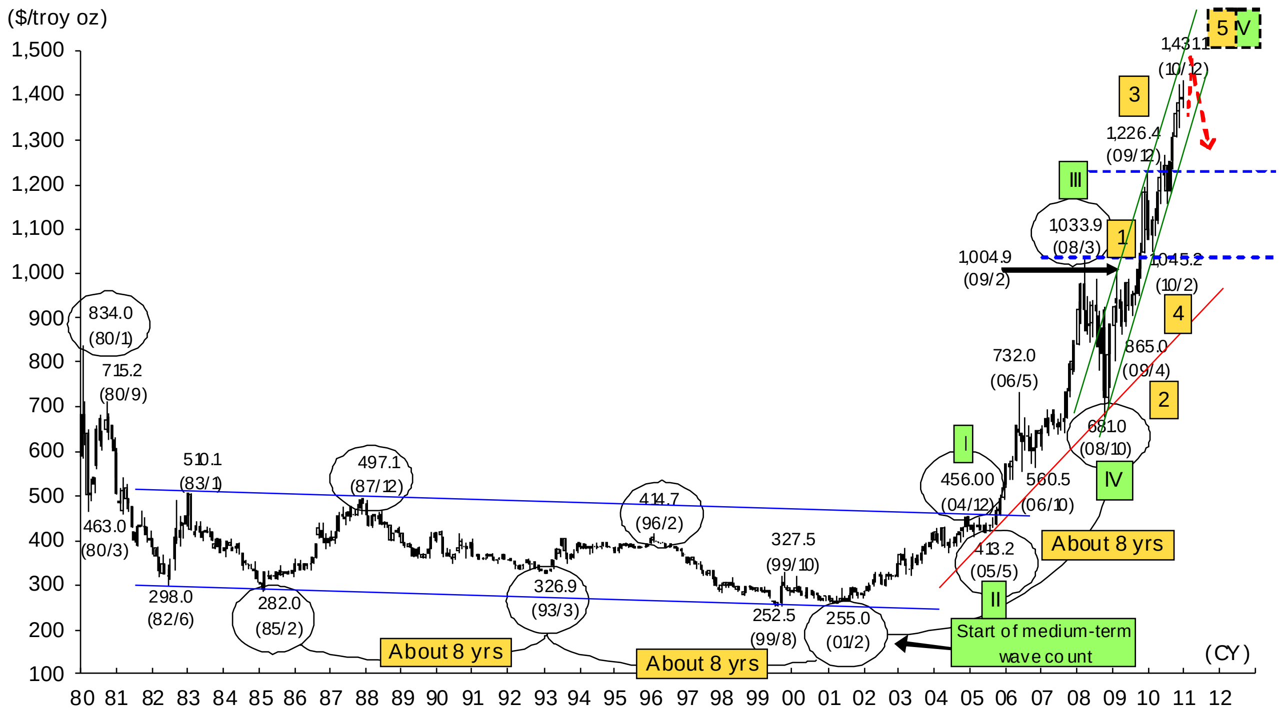
Risk of speedy correction from summer to autumn 2011 after prices top out

However, the final wave 5 within upward wave V could be reaching an end turning point. If prices turn downward and decline toward the recent low of $1,329 reached on 16 November, it would complete a short-term double-top chart pattern with highs of $1,424 on 9 November and $1,431 on 7 December. Wave formation suggests the possibility that prices may have hit the key ceiling of $1,431 on 7 December. If signs of a correction strengthen, we would expect a speedy correction down to around $1,000–1,050, which corresponds to the lows of $1,045 in February 2010 and $1,033 in March 2008, from spring to autumn 2011 in tune with the next nine- to 11-month cyclical bottom.

Prices could also rise sharply to $1,591

When gold prices form key highs, they often follow a pattern of significant, sharp increases. For example, prices formed a long upper bar on the monthly candlestick chart when they reached highs of $732 in May 2006, $1,033 in March 2008, and $1,226 in December 2009. If prices continue rising after attaining the target of $1,484, we think they could eventually reach $1,591, equivalent to the rise from the October 2008 low of $681 to the December 2009 high of $1,226 added to the February 2010 low of $1,045.

5-4. COMEX gold futures front-month contract (monthly, intraday basis)



Source: Nomura

5-5. COMEX gold futures front-month contract (daily basis)

Source: Nomura

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